

Message Text

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ACTION EB-11

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E.O. 11652: N/A

TAGS: EIND, BGEN, GWSUBJECT: VISIT TO VOLKSWAGEN HEADQUARTERS,
WOLFSBURG

REF: HAMBURG 914, JULY 16, 1973

1. SUMMARY: DURING COURSE OF INTRODUCTORY CALL, CONSULATE OFFICERS INFORMED THAT VOLKSWAGEN'S DECISION ON WHETHER TO INVEST IN THE US IS NOW DUE AT THE END OF APRIL, 1974. VOLKSWAGEN (VW) OFFICIAL ALSO INDICATED THAT, WITH RAPIDLY RISING COSTS AND INCREASED BUYER RESISTANCE, VW PENETRATION OF THE US MARKET MAY HAVE PEAKED OUT. END SUMMARY.

2. ECONOMIC/COMMERCIAL SECTION OFFICER REYNDERS, ACCOMPANIED BY FSO MAY, PAID INTRODUCTORY CALL ON DR. GUENTER FLUES, HEAD OF THE AMERICAN SECTION OF VW'S OVERSEAS DIVISION AT HIS WOLFSBURG OFFICE ON APRIL 1ST. IN ADDITION TO BEING MOST CORDIAL AND GIVING FULLY OF HIS TIME TO PROVIDE A TOUR OF THE PLANT, DR. FLUES DISCUSSED CANDIDLY SOME OF VOLKSWAGEN'S MARKETING AND INVESTMENT PROBLEMS.

3. DISCLAIMING ANY PERSONAL ROLE IN THE DECISION, DR. FLUES

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SAID THE LONG-DELAYED DECISION ON INVESTING IN THE US SHOULD

BE REACHED AT THE END OF APRIL. HE FEELS PERSONALLY THAT THE DECISION HAD BEEN PUT OFF TOO LONG, PERMITTING LABOR AND INTERNAL AND EXTERNAL POLITICAL PRESSURES AGAINST THE PLANNED INVESTMENT TO MULTIPLY. AS A RESULT OF THESE PRESSURES, HE GAVE THE IMPRESSION THAT HE DOES NOT EXPECT VW TO INVEST AT THE TIME. HE SAID THAT A DECISION SHOULD HAVE BEEN MADE QUICKLY, WITH A MINIMUM OF FANFARE DURING THE DECISION-MAKING PROCESS, TO MINIMIZE THE AMOUNT AND DURATION OF OPPOSITION. MOREOVER, THE INVESTMENT STUDY, UPON WHICH THE DECISION PRESUMABLY WILL BE BASED, SHOULD HAVE BEEN CONDUCTED BY AN INDEPENDENT, OUTSIDE ORGANIZATION.

4. NONETHELESS, DR. FLUES BELIEVES VW ULTIMATELY MUST INVEST IN

THE US IF IT IS TO RETAIN A SIZEABLE SHARE OF THE MARKET THERE. HE FEARS THAT PROPOSED PROTECTIONIST LEGISLATION, SUCH AS THE BURKE-HARTKE BILL, WILL BE ENACTED TO RESTRICT VW'S IMPORTS TO THE US. IN THIS CONNECTION, HE NOTED THAT EVEN FORMERLY PRO-FREE TRADE LABOR LEADERS SUCH AS UAW PRESIDENT LEONARD WOODCOCK ARE IN FAVOR OF SOME SUCH LEGISLATION.

5. HE ALSO NOTED THAT THE BASIC VW "BEETLE", AT \$2600 ON THE EAST COAST, IS ALREADY UNDERSOLD BY SOME COMPETITORS. THE RECENT VW WAGE SETTLEMENT, SUPPOSEDLY GIVING A 13 PERCENT AVERAGE WAGE INCREASE, WILL ACTUALLY INCREASE VW'S LABOR COSTS BY 15 PERCENT, OR DM 550 MILLION PER YEAR. THIS, HOWEVER, WOULD ADD DM 600 TO THE COST OF A VW IN GERMANY (CURRENTLY DM 6,000 FOR THE BEETLE). TRANSPORTATION COSTS HAVE ALSO RISEN SHARPLY AND CONTINUE TO RISE.

6. DR. FLAES SEES NO WAY FULLY TO PASS THESE INCREASED COSTS ON IN THE US. VW SALES IN THE US IN FEBRUARY 1974 WERE OFF 30 PERCENT FROM FEBRUARY 1973, AT LEAST IN PART DUE TO VW'S LACK OF PRICE COMPETITIVENESS. THE ONLY WAY TO OVERCOME THIS PROBLEM, HE FEELS, IS TO SHIFT PRODUCTION TO THE US. OTHERWISE, HE BELIEVES VW HAS SEEN ITS BEST DAYS IN THE US MARKET. BROGAN

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